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# Technical Report

PLANNING FOR EMPLOYMENT :  
SOME OBSERVATIONS

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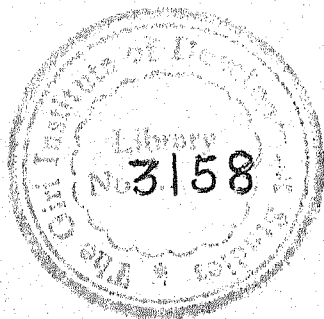
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# I

The menace of unemployment has been haunting the policy makers for a number of years. For some time, growth itself was supposed to take care of the problem. Then, employment creation was treated as an objective separate from the objective of raising production levels. Certain sectors, particularly small scale and consumer goods industry, were expected to take care of the problem of unemployment whereas the large scale and heavy industries were emphasised with a view of building the necessary condition for modernised, self-reliant and rapidly growing economy. Of late, special programmes have also been devised, on the periphery of the production plans, as short term expedients, to deal with the problem.

None of these approaches has yielded the desired results. The back-log of unemployment has increased from year to year and plan to plan. On the basis of rough estimates, the open unemployment is reported to be around 14 million; and if the man-years lost or unutilized due to underemployment are also considered, the total unutilized human resources in the country will make a staggering figure. The open unemployment itself will constitute about 7 per cent of the labour force and adding to it the unutilisation of labour due to lack of work for the whole year, the utilizable unutilized manpower may make about one-fourth of the labour force. It is, therefore, natural that a lot of concern has recently been expressed about the pattern of development with a view to ensuring employment to all those capable of and available for work. Intensive and extensive discussions were held at the time of the preparation of the Fifth Five Year Plan about the desirability and feasibility and employment-oriented planning. At the end, however, it was not thought desirable to change the model of planning which has been in operation for quite some time, but it was considered necessary to devise special programme for creating employment. During the last few years, however, a consensus seems to be emerging among the economists, policy makers and others that it is necessary to make employment a central theme in the planning process. The search for appropriate methods of doing it is continuing and a solution still seems to be eluding the policy makers. There have been all kinds of suggestions ranging between stepping up the rate of growth which by itself will take care of the problem, on the one hand and starting the planning exercise with the number of jobs to be created as the central objective, on the other.

Among the various suggestions made recently in this connection, the strategy outlined in the People's Plan prepared by the Indian Renaissance Institute is relatively most comprehensive, as it attempts to weave together the four basic objectives of economic development in the country, namely, satisfaction of primary needs, employment creation, distributive justice and eradication of poverty. It emphasises the need for greater job opportunities for the unskilled workers who constitute the major part of the unemployed and are also economically worst-hit as a result of lack of income and employment opportunities. The Plan also rightly recognises the fact that although it is possible to increase agricultural output substantially during the next 20 years, that will only partially help in solving the unemployment problem. Therefore, jobs for most of the new entrants in the labour force as well as for those who are without work today, will have to be found outside agricultural sector. The major burden of the creation of new jobs is expected to be borne by services, construction and industry, specially small industry. While one would generally agree with this pattern of employment creation, it is necessary to take a number of propositions into account while detailing and implementing the plan. Some of these propositions are highlighted in the following paragraphs.

## II

First, it needs to be emphasised that the tendency to portray growth and employment as competitive objectives should be checked. It is true that even though the Indian economy has grown at an average annual rate of over 3 per cent during the last 25 years, the employment growth has lagged behind. This is an obvious result of increase in productivity, that is production per worker, in all the sectors; the increase in productivity has maintained a trend rate of around 2 per cent per annum and therefore, the employment has grown at a nominal rate of 1 per cent per annum. And this meagre rate of employment growth has fallen far short of the 2.5 per cent annual growth in the labour force. An earlier exercise by this author suggested that if the rate of growth of national income had been the same as targeted in the Five Year Plans, namely, 5 per cent per annum, during the period 1950-51 to 1973-74 the problem of employment would no longer have been with us today. Further, a rate of growth in output of the order of eight per cent per annum, without any major structural and technological changes but with the continued trend rate of 2 per cent

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in productivity increase, all those employed in 1974 and the new entrants in the labour force during the next 5 year period could have been provided jobs by the end of the Fifth Five Year Plan. On the same assumptions, the required rate of growth to eliminate unemployment by the end of the Sixth Plan would now be around 10 per cent per annum. Obviously, the past experience as well as an assessment of the availability of resource with the economy suggests that such a rate of growth would be unattainable.

Thus, even though achieving a high rate of growth in output is essential, that may by itself not be sufficient for solving the problem of unemployment unless it is as high as indicated above. At the same time, it cannot be considered desirable to revert the planning process into an exercise of creating jobs without providing for the production of commodities required for current consumption as well as for future production. The solution is then sought in terms of changing the investment and production pattern and introducing such techniques of production which create larger number of jobs per unit of capital. Here again, the given structure of the economy and the pattern of investment made in the past have to be kept very much in view, as the built-in capacity cannot and should not be dismantled nor should it be allowed to lie unutilised. It is true that in spite of the best intention of the framers of the basic strategy of the Indian Planning and their efforts to create a balanced structure of production, the economy has exhibited serious imbalances in its production pattern in the last decade, particularly in the form of acute shortages of wage goods and intermediate products and a high degree of under-utilization of capacity in the heavy industry and also in the large scale consumer goods industries. The reason for this imbalance is attributed to the relatively larger investments made in the heavy industry sector, low priority accorded to wage goods production and an employment and income pattern which created excess demand in the low production sectors and lack of effective demand in the lines where capacities have been built. It may be worthwhile to have a re-look at this strategy and correctives may be introduced to remove these imbalances. But at the same time the heavy industry sector will have to be continued as an important claimant of investment in the long range growth perspective.

### III

It is in this context that the proposal sometimes being mooted in some quarters that industrialization needs to be pursued



less rapidly during the next decade or so seems somewhat difficult to swallow. Even if the pace of investment in the heavy industry sector is slowed down, from the viewpoint of production of wage goods and providing employment, the consumer goods industry will have to grow rapidly. For, even if agriculture grows at a rate of 3 per cent per annum, a rate which has been considered essential, but seems a little unrealistic both in view of the past trends as well as the limitations on growth in agricultural output, it would not suffice for providing income and employment opportunities to large number of the rural population. And if the recourse is mainly made to the tertiary sector particularly social services for creation of additional jobs, the inflationary implications of the proposal may be highly uncomfortable. Moreover, the programme for employment creation should not be such that would cease generating jobs after a given period, but should continue to create employment on a sustained basis. In this context, programmes like construction, although very important from various other viewpoints have their own limitations as elements in a long term strategy for employment creation.

The other element in the planning for employment is technology which ultimately gets reflected in the capital intensity and labour productivity. Theoretically, it is conceivable to have the same output produced with different combinations of capital and labour. In practice, however, there are severe limitations on switching from one technique to another. First, in most of the cases, a product has a technology identified with it at least for some years. That is, coefficients of production are more or less fixed. It is possible to change the product but it is difficult to vary the combination of inputs to produce the same output. This situation has been found to exist in a large number of Indian industries as revealed by several studies undertaken on this subject. Secondly, even if technological flexibility is possible, the change of plant and equipment may not be within the capacity of the entrepreneur or he may not find it profitable to switch over to the new technology. Thirdly, in many cases raising the levels of production and efficiency of all the resources used in production necessitates changing technology more often in favour of capital than of labour. This is largely true in case of agriculture, small industries and agro-based industries. It does not, therefore, seem easy to make any substantial impact on the employment front by changing techniques of production. It is, however, true that certain activities do have higher employment potential than others. A change in the pattern of production in favour of these activities seems the only solution, other than raising the rate of growth itself,

for employment creation. In view of the facts that basic infrastructure for the development of such activities has already been laid down in the economy and that the output of these activities is by and large needed in the country, emphasis on these activities is certainly warranted.

#### IV

Agriculture could be considered as one of these activities to the extent it not only provides livelihood to a large number of people but also supports a large number of other activities. However, as pointed out earlier, the rate of growth of employment in agriculture may hardly match with the rate of growth in agricultural output and much less the rate of growth of manpower in the rural areas, for the following reasons. First, even assuming a constant productivity per man-day, the agricultural production will have to increase by over 50 per cent with a view to providing full time productive employment to the entire existing labour force in the rural areas, as over one-third of the available man-days are estimated to be currently unutilised. Secondly, with the necessity to introduce mechanisation and electrification of agricultural process, the productivity per man-day is bound to increase in agriculture. Thus not only the under-employed are likely to become openly unemployed but even the number of people required on a full time basis to support a given level of production might decline. Thirdly, the new entrants in the rural labour force will substantially add to the already unemployed. Therefore, a shift in the employment pattern reducing proportion of employment in agriculture seems inevitable.

A major shift of this type would, however, require a fast growth of the manufacturing and services sectors. Further, given the fact that the economy may at best grow at an annual rate of 5-6 per cent per annum to provide productive employment to the all unemployed by the end of the Seventh Plan, the increase in gross domestic product during the next 10 year period, about 2/3rds will have to be contributed by increase of hands and one-third by increase in productivity. This is a major departure from the past trend where two-thirds of the growth was contributed by productivity increase and one-third by additional employment. It may be desirable departure from the viewpoint of employment creation. The problem is whether in the process of concentrating on the creation of jobs proper care should be taken to ensure efficiency. If that is not done,



productivity may not increase even to the extent it is envisaged to increase. And it may create problems for sustaining growth of output as well as employment in the long run.

The main thrust of the programme of employment creation is supposed to lie in the sectors of small scale industry and services. Both these sectors have exhibited problem of inefficiency and slow growth in the past. It may not be desirable to emphasise any industry for employment creation simply because it happens to be operated on the basis of small units. There are small units which have the same or even higher capital intensity than the large scale units. The choice has to be made primarily productiwise so as to ensure both the adequate supply of consumer and intermediate goods and to generate employment. Studies need be made in depth to identify such lines of activities.

The services sector generally expands in some proportion to the strictly productive sectors in the economy. A sudden spurt in investment in the services sector may create problems of demand and inflation because the investment in services takes some time before its contribution to the productive activities starts being felt. Here again the emphasis needs to be laid on creation of infrastructure to support productive activities rather than heavily loading the programme with social services.

## V

At the end, a word may be said about the priorities in employment creation. Basically, there are three types of unemployed in the economy. First, a large number of people are under-employed; engaged in some activity for only part of the year and making their livelihood, at howsoever low level. Secondly, there are a number of people openly unemployed in the rural, but more particularly in the urban areas. Of the latter, a large segment consists of people with education higher than matriculation. Distinction can be made among these segments of unemployed according to the degree at which their unemployment results in poverty and destitution. For the uneducated unemployed, more particularly in the urban areas lack of work means virtually starvation. To a large extent, this is also true of the rural openly unemployed. So far as the educated unemployed is concerned, it may be noted that given the highly inequalitarian system of education prevailing in the country, the educated unemployed do not necessarily come from the lowest rung of the economic ladder; education in colleges and

universities pre-supposes one or two earners in the family of the student. In these cases the problem is not so much economic as social and political. It is not being suggested that the discrimination is made against any segment of population, for unemployment is certainly bad for any one, but it is worse in such cases where alternative to work is destitution and starvation. Therefore, in the immediate short run programme the priorities need to be fixed in favour of the unemployed in whose case employment is coterminous with poverty.

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## VI

Let us now recapitulate the major propositions discussed in the above paragraphs. First, the higher rate of growth is the surest way of generating and sustaining the high level of employment. Creation of jobs by producing a given level of output with the use of larger number of hands and thereby reducing productivity may not be a desirable strategy for employment creation in the long run. Second, while growth rate in agriculture needs to be stepped up both for providing food supplies as well as the materials and demand for non-agricultural products, the major source for employment creation will have to be found outside agriculture. Therefore, the non-agricultural sectors will have to grow fast if the objective of full employment is to be achieved. Third, it may not be a very wise policy to go by the assumption that any activity carried on a small-scale basis has necessarily a greater employment potential per unit of capital or output than the one carried on a large-scale basis. It is desirable to go by products rather than size and studies should be undertaken to identify, for different areas, such products which have the potential for creating greater employment per unit of capital without a significant loss of efficiency. Lastly, while these measures would succeed in providing full employment in the long run, the strategy for employment in the short-run should primarily be focussed on such sections of population where unemployment is coterminous with poverty.

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